

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. Because of the class that follows your class, I cannot give you extra time.

1) (12 points) Explain EITHER the equation in Part A OR the equation in Part B.

A)  $N_s = f(w/P)$

B)  $C = a + b(Y-T)$ . Explain  $b$ ,  $Y$ , and  $T$ , but not  $a$ .

2) (14 points) Do EITHER Part A OR Part B.

A) Suppose that  $C = 100 + 0.7(Y - T)$ ,  $T = 0.3Y$ ,  $I = 120$ ,  $G = 150$ ,  $X = 110$ ,  $M = 0.09Y$ . Find the value of the government spending multiplier. Show all work and state how you determined it.

B) Would you expect the state of West Virginia to have a larger or smaller government spending multiplier than the government spending multiplier for the USA? Explain your logic.

4) (14 points) For the part of society in Part A OR the group in Part B, explain whether you feel that GDP, GNP, NNP, NI, PI, or DPI (DI) is the best measure of that group's well being. Explain your logic. By comparing that measure to the next broader and the next narrower measure.

A) The firms.

B) The country as a whole.

3) (18 points) Illustrate EITHER the event in Part A OR the event in Part B on the Keynesian Cross ( $45^\circ$  diagram) for the USA. Explain why the curve(s) moved as drawn.

A) The Canadian economy improves.

B) The price level in the USA increases.

5) (42 points) Illustrate EITHER the event in Part A OR the event in Part B on ALL three of the following diagrams:  $N_s/N_d$ , the production function, and the classical AS/AD. Use the same event on all three graphs. Explain why the curve(s) moved as drawn and how you found the equilibrium points on each graph.

A) There is an improvement in technology.

B) There is an increase in the capital stock.